Wolverhampton City Council

OPEN INFORMATION ITEM

Audit Committee

Date **19 December 2011**

Originating Service Group(s)	**DELIVERY**

Contact Officer(s)/	**B BURGESS**	**R MORGAN**
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Title/Subject Matter	**PWC REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT – PROGRESS REPORT**

RECOMMENDATION

That the Action Plan be received and noted with regard to the recent PWC Review of the Effectiveness of Internal Audit.

1.   **PURPOSE AND BACKGROUND**

1.1   Members will recall that the Council's external auditor, PwC was commissioned to undertake a review of the effectiveness of the internal audit function and the role of the Audit Committee in late 2010.

1.2   The Comprehensive Spending Review (CSR) on 20 October 2010 announced cuts across local government equating to 7.1% per annum until 2013/14, placing a significant burden for savings on authorities which were to be met across all services. Additional pressure was placed on back office functions to prove their value and against this background, PwC was commissioned to independently and objectively assess the effectiveness of the internal audit function against best practices.

2.   **DETAILS**

2.1   In assessing the effectiveness of internal audit at Wolverhampton, the review consisted of :

- A review of quantative data – cost, days and CIPFA benchmarks.
- Review of the 2010/11 internal audit plan.
- Review of how the plan is delivered, including work on fraud.
- Review of assignment and audit reporting.
- An assessment of the quality of internal audit files, and quality procedures in the team.
- Holding workshops with the internal audit team.
- Considering the role of the Audit Committee.
- Considering the governance and management of the service.
- Ten questionnaires from officers and members, providing evidence for each part of our work.

A summary of the findings was subsequently presented in a report under four headings of effectiveness - role, scope, value and quality.

2.2   The report has previously been presented to members of Corporate Management Team (now Strategic Executive Board) and the Audit Committee on 11 April 2011 when it was agreed that regular progress reports would be provided to demonstrate that actions were being taken to address recommendations where considered appropriate.

2.3   This is the second progress report produced since receipt of the original report from PwC and the outline Action Plan has been updated to show progress to the 4 November 2011 as detailed in Appendix A.

3.   **FINANCIAL IMPLICATIONS**

3.1   There are no direct financial implications arising from this report although there may be additional costs arising and opportunities for achieving savings over the action plan timeframe as opportunities for improving effectiveness are identified.
[CB/00011900/C]

4.   LEGAL IMPLICATIONS

4.1   There are no direct legal implications arising from this report.
       [MW/02122011/M]

5.   EQUAL OPPORTUNITIES IMPLICATIONS

5.1   There are no direct equal opportunities implications arising from this report.

6.   ENVIRONMENTAL IMPLICATIONS

6.1   There are no direct environmental implications arising from this report.

7.   SCHEDULE OF BACKGROUND PAPERS

7.1   PwC Review of Effectiveness of Internal Audit Report

PwC Review of Effectiveness of Internal Audit

Action Plan – Progress to 4 November 2011

	Recommendation	PWC Priority	Owner	Actions Identified/Taken	Timescale
1	Address inefficiencies in the audit plan	High	Head of Audit Services	• Reduce the number of brought forward audits in the Audit Plan.	Audit Plan 2012/13
				• School Audits are now pre-booked in advance.	Complete – April 2011
				• Review Management and Admin time in CIPFA Benchmarking Exercise.	Throughout 2010/11 - for implementation from April 2012. Note: a greater proportion of Mgt and Admin time will be required in 2011/12 to address issues arising from the PWC review, Systems Thinking, and use of Audit Automation.
				• Consider alternate methods of following up audits.	Continuous during 2011/12
				• A 'Systems Thinking' review of processes has commenced and has identified potential for change in the planning process.	December 2011
				• A review of the approach to planning will also be carried out following the new arrangement to share a Head of Internal Audit with Sandwell	March 2012

PwC Review of Effectiveness of Internal Audit

Action Plan – Progress to 4 November 2011

	Recommendation	PWC Priority	Owner	Actions Identified/Taken	Timescale
2	Create a more risk focussed internal audit plan	High	Head of Audit Services	• Risk registers are a corporate issue to be developed along with the Risk Management & Insurance team.	Continuous during 2011/12
				• Audit will review registers when available as part of the audit planning process.	Continuous during 2011/12
				• Engagement with Assistant Directors and the Corporate Delivery Board will be developed following the senior management re-structure.	October 2011
				• Assurance Mapping will be developed with Assistand Directors and Heads of Service.	December 2011
				• Further meetings will be held with Directorate Management teams and Heads of Service to identify areas where audit work will be most effective.	Continuous during 2011/12
3	Provide pro-active fraud awareness training	Medium	Head of Audit Services	• Training sessions will be developed / arranged across the Council to raise Officers / Members awareness of fraud.	Programme to be developed during 2011/12 for delivery to commence prior to 31 March 2012.

PwC Review of Effectiveness of Internal Audit

Action Plan – Progress to 4 November 2011

		Recommendation	PWC Priority	Owner	Actions Identified/Taken	Timescale
					• A review of fraud related policies was completed and reported to Audit Committee in September 2011. New policies have been circulated to Directors and Assistant Directors for wider distribution to staff.	Complete - September 2011
					• Training and awareness sessions will be carried out before the end of the financial year.	March 2012
					• Various methods of communicating the message will be examined – Intranet, City People, Fraud Newsletter etc.	March 2012
4		Create investigative specialism within the audit team	Medium	Head of Audit Services	• The issue of Audit Fraud specialists has been discussed with Black Country Colleagues to determine the situation across the region.	Complete - September 2011
					• The development of investigative specialism is considered prohibitively expensive in the current financial climate. The Council currently has the greatest proportion of qualified and experienced staff compared to neighbouring authorities and this is currently considered sufficient to meet the Council's needs. An amended approach will be considered as part of the sharing arrangement with Sandwell going forward.	March 2012

PwC Review of Effectiveness of Internal Audit

Action Plan – Progress to 4 November 2011

	Recommendation	PWC Priority	Owner	Actions Identified/Taken	Timescale
				• The City Council's approach to investigations is to be reviewed in conjunction with HR colleagues.	December 2011
5	Consideration of open plan environment	Low	CMT	• A separate area has been screened off within the open plan environment for use solely by Internal Audit staff. Hot desking also remains under consideration as part of the general accommodation review.	Complete - May 2011
				• Audit investigations / Fraud files are stored in a secure storage room.	Complete - May 2011
				• A clear desk policy is in operation.	Complete - May 2011
6	Consideration of paid accounts process	High	Audit Committee	• The number of meetings taking place to select accounts for examination by audit has been reduced to four in 2011/12.	Complete - May 2011
7	Introduction of timescales for audit reporting	Low	Head of Audit Services	• Target dates for completion of each audit are determined at commencement of the assignment.	Complete - April 2011
				• Monitoring and reporting systems are in place to track performance in meeting these deadlines.	Complete – April 2011

PwC Review of Effectiveness of Internal Audit

Action Plan – Progress to 4 November 2011

	Recommendation	PWC Priority	Owner	Actions Identified/Taken	Timescale
8	Increase service involvement in clearing reports	High	Strategic and Assistant Directors	• A reporting protocol has previously been submitted to Corporate Management Team for consideration of options. Further discussion on this issue will be undertaken and consideration will be given to introducing exception reporting.	October 2011 for implementation from January 2012.
				• New report distribution lists have been introduced following the senior management re-structure	Complete - May 2011
				• The process for sending an audit report with a Weak rating to Senior Management will be reviewed, including timescales for notification.	October 2011
9	Introduction of automated audit software and consideration of further specialisms	Medium	Head of Audit Services	• Automated software options will be investigated. Introduction of any automated solution will have budgetary implications.	April 2012
				• Discussions have been held with a neighbouring authority and the possibility of obtaining additional licenses will be explored.	In progress – October 2011
				• Development of automating the use of Microsoft Office products will be explored.	In progress – October 2011
				• Consideration will be given to determining solutions in use and best practice across the Black Country region.	October 2011

PwC Review of Effectiveness of Internal Audit

Action Plan – Progress to 4 November 2011

	Recommendation	PWC Priority	Owner	Actions Identified/Taken	Timescale
				• Opportunities to identify specialisms across the Black Country region will be explored with other Heads of Audit.	On-going – from June 2011
10	Introduction of KPIs and a robust quality assurance framework	Medium	Head of Audit Services	• Audit KPIs have been input to the 'TEN' performance management system and will be monitored throughout the year.	Complete - May 2011
				• Further consideration will be given to Quality Assurance Standards e.g. peer reviews.	March 2012
11	Improve compliance with CIPFA Code of Internal Audit	Medium	Head of Audit Services	• PWC recommendations and compliance with the CIPFA code will be reviewed over the next 12 months.	March 2012
12	Introduction of a new Audit Charter	High	Audit Committee and Strategic Executive Board	• Options to be explored and a report to be submitted to Audit Committee and Strategic Executive Board	October 2011
13	Consideration of Audit Committee preparation and practice	High	Audit Committee, Strategic and Assistant Directors	• The continuation of agenda meetings has been confirmed with the new Chair of the Committee to discuss and agree agenda items and related matters.	Complete - May 2011
				• The number of meetings has been reduced from May 2011. Sub-Committee meetings were also re-scheduled to take place on the same day as the main Committee where possible although the original format of meetings on separate days has now been reinstated.	Complete - September 2011

PwC Review of Effectiveness of Internal Audit

Action Plan – Progress to 4 November 2011

	Recommendation	PWC Priority	Owner	Actions Identified/Taken	Timescale
14	Provision of Member training	Medium	Audit Committee, Strategic Assistant Directors and Head of Audit Services	• Member training sessions have been provided (6 and 20 June 2011) and (19 October and 14 November) .	Complete - November 2011
				• An on-going programme of training will be arranged as part Member development.	March 2012
				• An update on the new Schools Financial Value Standard will be provided to Members.	December 2011
15	Introduction of CIPFA compliant Audit Committee role and remit	High	Audit Committee and Strategic Executive Board	• Options to be explored and a report to be submitted to Audit Committee and Strategic Executive Board when the outcome of the Government's own proposals for local authority audit committee's are announced	When the Government's decision is known (autumn 2011?)
16	Consideration of independent membership of Audit Committee	High	Audit Committee	• Options to be explored and a report to be submitted to Audit Committee and Strategic Executive Board when the outcome of the Government's own proposals for local authority audit committee's are announced	When the Government's decision is known (autumn 2011?)